



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0539	<b>Title:</b>	Revise school funding laws
<b>Primary Sponsor:</b>	Glaser, Bill E	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$26,498,757	\$52,022,618	\$13,273,174	\$12,606,428
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$26,498,757)</u>	<u>(\$52,022,618)</u>	<u>(\$13,273,174)</u>	<u>(\$12,606,428)</u>

**Description of fiscal impact:** HB 539 proposes to revise the calculation for the basic entitlement by including a definition for a "school unit," and calculating the basic entitlement based on the number of school units within each school district. HB 539 also includes a new classroom payment component, funded 80% by the state. These changes result in additional state general fund expenditures of \$26.5 million in FY 2010, and \$52.0 million in FY 2011.

### FISCAL ANALYSIS

#### Assumptions:

- Under current law, the average number (ANB) belonging used to determine the general fund budgets for K-12 public schools will be as follows:

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>K-6 ANB</b>	77,753	77,541	77,951	79,887	80,769
<b>7-8 ANB</b>	23,353	22,832	22,531	22,448	22,394
<b>9-12 ANB</b>	48,642	47,673	46,734	45,889	44,971
	149,748	148,046	147,216	148,224	148,134

2. The present law inflation applied to the basic and per-ANB entitlements is 3% each year in FY 2010, FY 2011. The basic and per-ANB entitlements will be set as follows:

<u>Entitlement</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Elementary Basic</b>	\$21,922	\$22,580	\$23,257	\$23,257	\$23,257
<b>Middle School Basic</b>	\$62,083	\$63,945	\$65,863	\$65,863	\$65,863
<b>High School Basic</b>	\$243,649	\$250,958	\$258,487	\$258,487	\$258,487
<b>Elementary Per-ANB</b>	\$4,716	\$4,857	\$5,003	\$5,003	\$5,003
<b>High School Per-ANB</b>	\$6,037	\$6,218	\$6,405	\$6,405	\$6,405

3. HB 539 increases the FY 2009 basic and per-ANB entitlements by approximately 3.22% to FY 2010 and an addition 4.02% to FY 2011 values. The basic and per-ANB entitlements revert back to the 2009 rates in FY 2012 and succeeding years as represented in the following table.

<u>Entitlement</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Elementary Basic</b>	\$21,922	\$22,628	\$23,538	\$21,922	\$21,922
<b>Middle School Basic</b>	\$62,083	\$64,082	\$66,658	\$62,083	\$62,083
<b>High School Basic</b>	\$243,649	\$251,494	\$261,604	\$243,649	\$243,649
<b>Elementary Per-ANB</b>	\$4,716	\$4,868	\$5,064	\$4,716	\$4,716
<b>High School Per-ANB</b>	\$6,037	\$6,231	\$6,481	\$6,037	\$6,037

4. Present law (MCA 20-9-326) requires the Governor to include inflation adjustments for the basic and per-ANB entitlements in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

	<u>FY 2010</u>	<u>FY 2011</u>
<b>Direct State Aid</b>	\$383.0 million	\$393.2 million
<b>Guaranteed Tax Base Aid</b>	\$136.0 million	\$140.7 million
<b>County Retirement GTB</b>	\$27.7 million	\$28.7 million

5. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.
6. The present law adjustments do not include inflationary increases for the general fund payments in 20-9-327 through 20-9-330, MCA, (quality educator payment, at-risk student payment, Indian education for all payment, American Indian achievement gap payment). The payments will total \$49.6 million in FY 2010 and \$49.5 million in FY 2011.

<u>Component</u>	<u>Present law distribution amount</u>
<b>Indian Education for All</b>	\$20.40 per ANB or \$100 per district whichever is greater
<b>American Indian Achievement Gap</b>	\$200 per American Indian student
<b>Quality Educator</b>	\$3042 per FTE
<b>At Risk</b>	\$5 million allocated per 20 U.S.C. 6332, et seq.

7. The state special education appropriation is not changed in this bill. The special education payment remains at \$41.6 million per year.
8. The statewide taxable valuations will increase by 3.50% in FY 2010 and 3.14% in FY 2011 and beyond.
9. HB 539 revises the basic entitlement as defined in 20-9-306(6), MCA, by determining the number of school units in a district. School units are calculated by dividing the number of budgeted ANB in a

district for elementary, middle school and high school as shown in the table below. The number of school units are then multiplied by the basic entitlement amounts in assumption 3. The change in basic entitlement calculation will cost the state general fund an additional \$22.9 million in FY 2010 and \$45.5 million in FY 2011 for additional direct state aid (DSA), guaranteed tax base aid (GTB) and county retirement. In FY 2012, when the basic entitlement values decrease according to this bill, to the FY 2009 amounts, the state general fund would reduce the amount of K-12 base aid to \$5.8 million in FY 2012 and \$4.6 million in FY 2013. The school units remain the basic entitlement calculation even though the amount per unit drops to the FY 2009 level.

	<u><b>ANB</b></u>
<b>Elementary School Unit</b>	250
<b>Middle School Unit</b>	450
<b>High School Unit</b>	800

10. HB 539 includes a \$500 per classroom payment, as defined in Section 1. The bill indicates the state would fund 80% of the classroom component which would be included in the BASE budget. The classroom component totals \$4.4 million in FY 2010 and subsequent years. The state would pay \$3.5 million of the classroom component in the BASE budget. The following table shows the number of classrooms, total component values, and the 80% state share of the classroom component.

	<b>Elementary Classroom Units</b>	<b>High School Classroom Units</b>	<b>Total Classroom Component in BASE</b>	<b>State Share of Classroom Component</b>
<b>FY 2010</b>	5,930.0	2,900.7	\$4,415,350	\$3,532,280
<b>FY 2011</b>	5,934.4	2,843.8	\$4,389,100	\$3,511,280
<b>FY 2012</b>	6,033.6	2,795.2	\$4,414,400	\$3,531,520
<b>FY 2013</b>	6,070.7	2,741.2	\$4,405,950	\$3,524,760

11. The additional classroom component funding to schools would also create an increased expense for additional retirement funding. Increased retirement expense is estimated by determining the amount of increase in the BASE budget, multiplying times the percentage of the general fund budget that is typically salaries (75% salaries) to get the increased salaries associated with this bill.
12. Estimated benefit rate is 15% based upon FY 2008 employer contribution rates:

	<b>Certified Staff</b>	<b>Classified Staff</b>
<b>TRS</b>	7.47%	
<b>PERS</b>		6.90%
<b>FICA</b>	6.20%	6.20%
<b>Medicare</b>	1.45%	1.45%
<b>Unemployment</b>	0.02%	0.02%
<b>Totals</b>	<b>15.14%</b>	<b>14.57%</b>

13. Based on budget data from FY 2008, on the marginal, the state pays retirement guaranteed tax base aid (GTB) of approximately 28% of countywide retirement tax levy.

14. Estimated cost to the state and county for teacher retirement:

<b>Fiscal Year</b>	<b>Estimated Additional Salaries</b>	<b>Estimated Benefit Rate</b>	<b>Retirement Cost</b>	<b>State Share</b>	<b>County Share</b>
<b>2010</b>	\$4,415,350	15%	\$662,303	\$185,445	\$476,858
<b>2011</b>	\$4,389,100	15%	\$658,365	\$184,342	\$474,023
<b>2012</b>	\$4,414,400	15%	\$662,160	\$185,405	\$476,755
<b>2013</b>	\$4,405,950	15%	\$660,893	\$185,050	\$475,843

15. It is estimated that state general fund retirement GTB costs will increase by approximately \$185,000 per year.

#### Department of Administration

16. Two statutory appropriations are impacted by this bill. 19-20-604, MCA, requires 0.11% and 19-20-607, MCA, requires 2.38% of teachers salaries to be contributed by the state general fund to the Teachers Retirement System (TRS) to provide additional employees' share of retirement to fund the actuarial shortfall. The cost to the state general fund is 2.49% (2.38% + 0.11%) of local salaries shown in the following table.

	<b>Rate</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Salaries</b>		\$4,415,350	\$4,389,100	\$4,414,400	\$4,405,950
19-20-604, MCA	0.11%	\$4,857	\$4,828	\$4,856	\$4,847
19-20-607, MCA	2.38%	\$105,085	\$104,461	\$105,063	\$104,862
<b>Total TRS costs</b>		<b>\$109,942</b>	<b>\$109,289</b>	<b>\$109,919</b>	<b>\$109,708</b>

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Local Assistance (DSA)	\$16,023,358	\$31,680,703	\$4,123,506	\$3,689,122
Local Assistance (GTB)	\$6,531,187	\$13,210,066	\$1,979,189	\$1,758,078
Local Assistance (Co. Retire)	\$301,990	\$3,511,280	\$3,530,280	\$3,524,760
Local Assistance (Classroom Pmt)	\$3,532,280	\$3,511,280	\$3,530,280	\$3,524,760
Local Assistance (TRS)	\$109,942	\$109,289	\$109,919	\$109,708
<b>TOTAL Expenditures</b>	<b><u>\$26,498,757</u></b>	<b><u>\$52,022,618</u></b>	<b><u>\$13,273,174</u></b>	<b><u>\$12,606,428</u></b>

**Funding of Expenditures:**

General Fund (01)	\$26,498,757	\$52,022,618	\$13,273,174	\$12,606,428
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**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$26,498,757)	(\$52,022,618)	(\$13,273,174)	(\$12,606,428)
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**Effect on County or Other Local Revenues or Expenditures:**

1. The new classroom payment would create an increased local levy of approximately \$880,000 per year in FY 2010 and FY 2011 to support the additional 20% of the new classroom entitlement that is in the district base budget.
2. The change in basic entitlement would also create an increased local levy of approximately \$1.7 million in FY 2010 and \$2.9 million in FY 2011.

**Technical Notes:**

1. The school units are calculated to the nearest tenth of a unit. The classroom size is not stated to be calculated to the nearest tenth which would give clarity to the classroom unit.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
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